

**Keeping an Eye on the People's Business**  
**Part 4 - Spotlight on the Public Debt: DEBT RESTRUCTURING**

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Under the three-year Structural Adjustment Programme (June 2014 – June 2017), the Government of Grenada, with the support of the IMF, negotiated debt restructuring arrangements with a number of its creditors - **domestic creditors, international bond holders and holders of commercial debt, Paris Club official bilateral and non Paris Club bilateral creditors and Ex-Im Bank, Taiwan** – to obtain some form of debt relief, a reduction in total debt stock and/or cash flow relief. The following is a summary of the debt restructuring arrangements in respect of:-

- i. Exim Bank, Taiwan, Republic of China;
- ii. 2005-2025 USD and EC International Bond Holders
- iii. Paris Club..

**1. Ex-Im Bank of Taiwan, Republic of China:**

The following table summarizes the restructuring arrangements agreed with Ex-IM Bank, Taiwan.

*Table: Restructuring of Debt re EXIM Bank, Taiwan*

<b>RESTRUCTURING ARRANGEMENTS</b>		<b>NOTES/COMMENTS</b>
<b>Amount Debt Restructured</b>	<b>USD36.6 m (EC\$98.8mn.)</b>	Includes original amounts owed, principal arrears and capitalized interest arrears
<b>Face Value of Debt after Restructuring</b>		
<b>Principal Haircut</b>	A 50 percent reduction on principal	<ul style="list-style-type: none"> <li>• 47 percent to be effected upfront, following agreement</li> <li>• 3 percent at the successful conclusion of the IMF supported programme.</li> </ul>
<b>Maturity Period</b>	Repayable over 15 years - including a grace period of 3 years	
<b>Interest Rate</b>	Interest rate is 7%.	
<b>Net Present Value</b>	The Ex-Im debt restructuring resulted in a haircut of 62 percent	
<b>Reduction in Debt Stock:</b>	Contributed to a 1.8 percent reduction in the total debt stock in relation to the Gross Domestic Product	

**2. International (Sovereign Bonds):**

**Debt Restructuring of 2005 - 2025 USD and EC\$ Bonds:**

- **Creditors:** The bondholders comprise of institutional investors in the United States of America (USA), United Kingdom (UK) and the Caribbean.
- **Total Debt<sup>1</sup>:** The total debt owed by Grenada to United States (US) and Eastern Caribbean (EC) bondholders on Notes due 2025 was USD262M (ECD707.4M).2013

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<sup>1</sup> [http://www.gov.gd/egov/news/2015/apr15/08\\_04\\_15/item\\_2/grenada-bondholders-agreement-principle-financial-terms-restructuring.html](http://www.gov.gd/egov/news/2015/apr15/08_04_15/item_2/grenada-bondholders-agreement-principle-financial-terms-restructuring.html) accessed on Dec. 29<sup>th</sup>, 2017

## 2.1. Restructuring of USD & EC\$ 2005-2025 Bonds:

The following table summarizes the restructuring arrangements in respect of the external and non-NIS domestic creditors. Different arrangements were agreed with the NIS in comparison with the other creditors – lower interest rate and longer period of repayment which effected a haircut of 59 percent in respect of NIS-held debt compared with a haircut of 49 percent re the other creditors.

*Table: Restructuring of 2005-2025 Bonds*

Bond Holders/ Restructuring Arrangements	External/non-NIS Domestic Creditors	National Insurance Scheme (NIS)	Notes/Comments
Amount Debt Restructured - 2005-2025 Bond	<ul style="list-style-type: none"> <li>External: USD193.5mn</li> <li>non-NIS(domestic): USD34.1</li> </ul>	<ul style="list-style-type: none"> <li>NIS(domestic): USD34.0 mn.</li> </ul>	
Face Value 2015-2030 Bond	USD143.3	USD 37.4	Face value of new bond includes the capitalized interest arrears on 2025 bond.
Face-Value Reduction/Principal Haircut	<ul style="list-style-type: none"> <li>50% - 50 percent haircut on the principal amount;</li> </ul>	0% -Zero percent haircut on NIS principal amount	<ul style="list-style-type: none"> <li>Haircut effected in two phases – 25% at conclusion of agreement; 25 percent following successful conclusion of IMF programme</li> </ul>
Interest Arrears	Interest arrears capitalized	Interest arrears capitalized	Capitalized Interest arrears on old bond instruments (2025 bonds) <b>added to the reduced face value of new bond instrument.</b>
Interest Rates of New Bonds	7% - New bonds issued at percent.	3% - new bonds issued at 3 percent.	A significantly lower interest rate agreed for NIS domestic bonds.
Maturity Dates of New Bonds	<b>2015 – 2030 bonds:</b> Re-issued bonds would mature in a period of 15 years	<b>2015 – 2040:</b> NIS domestic bonds would mature in 25 years.	A significantly longer maturity period, 10 years – re NIS reissued bonds.
Net Present Value Haircuts – @ 13.9 % discount rate	There was a <b>49 percent reduction</b> on Net Present Value of the bonds.	There was a <b>59 percent reduction</b> on the Net Present Value of the NIS domestic bonds.	

<b>Bond Holders/ Restructuring Arrangements</b>	<b>External/non-NIS Domestic Creditors</b>	<b>National Insurance Scheme (NIS)</b>	<b>Notes/Comments</b>
<b>Repayment Schedule</b>	principal balance repayable in <b>29 equal and semi-annual installments</b> commencing March 2016 and ending March 2030.		
Citizenship by Investment Revenue Sharing <sup>2</sup>	Grenada will pay to holders of the New Bonds a portion of eligible revenues received by Grenada under its Citizenship by Investment (CBI) program after the completion of its current program with the IMF	Not extended to the NIS	NIS will not benefit from any CBI revenue sharing.

### 3. Paris Club Restructuring:

- **What is the Paris Club?** The Paris Club was formed in 1956. It is an informal group of creditor governments from major industrialized countries (i.e. OECD). It meets on a monthly basis in Paris with debtor countries in order to agree with them on restructuring their debts.
- **Participation in Restructuring Negotiations:**
  - **Creditors:** The members of the Paris Club which participated in the reorganization of Grenada's debt were representatives of the governments of France, the Russian Federation, the United Kingdom and the United States of America.
  - **Observers:** Observers at the meeting were representatives of the governments of Germany, Italy, Japan, the Netherlands, Norway and Spain, as well as the International Monetary Fund (IMF) and the World Bank.
- **ODA and Private Debt:** The Paris Debt is comprised of Overseas Development Assistance(ODA) loans and private creditor.

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<sup>2</sup> CBI Revenue Sharing under the following conditions: (1) the second step haircut has occurred; (2) more than US\$15 million in eligible CBI revenues has been received by Grenada in any given year; and (3) the cumulative limit (NPV of cumulative CBI revenue sharing cannot exceed 35 percent of the face value of the new 2030 bonds) for CBI payment amounts has not been reached; ref. *Sovereign Debt Restructurings in Grenada: Causes, Processes, Outcomes, and Lessons Learned, IMF Working Paper, WP/17/171* , pg. 26

Table: Restructuring of Paris Club Debt:

PARIS CLUB RESTRUCTURING ARRANGEMENTS	
<b>Total Debt Claims</b>	USD 11.0mn.
<b>Amount Debt Restructured</b>	USD 7.7mn. comprising of:- <ul style="list-style-type: none"> <li>• <b>Arrears: USD 5.7mn.</b> at October 31, 2015</li> <li>• <b>Maturities: USD 2.0mn.</b> of repayments due from November 1, 2015 to June 30, 2017 ( at the end of the IMF supported facility).</li> </ul>
<b>Cut-off Date</b>	<ul style="list-style-type: none"> <li>• The cut –off date was June 2004, i.e. the debt being considered was debt incurred to June 2004.</li> </ul>
<b>Face Value Reduction/Principal Haircut</b>	<ul style="list-style-type: none"> <li>• There was no reduction/haircut in the face value of the principal</li> </ul>
<b>Repayments</b>	<ul style="list-style-type: none"> <li>• <b>Overseas Development Assistance (ODA):</b> Repayment of ODA credits <b>over 20 years, with a seven-year grace period.</b></li> <li>• <b>Non Overseas Development Assistance:</b> Repayment of non-ODA credits <b>over 15 years, with an eight-year grace period.</b></li> </ul>
<b>Principal Haircut</b>	<ul style="list-style-type: none"> <li>• There was no reduction/haircut in the face value of the principal.</li> </ul>
<b>Net Present Value Haircuts</b>	<ul style="list-style-type: none"> <li>• NPV haircuts on official loans are estimated to be 3.2 percent using a discount rate of 2.8 percent.</li> <li>• Losses to official sector creditors were substantially lower than those to private creditors</li> </ul>
<b>PROVISIONS FOR DEBT SWAP:</b>	
<ul style="list-style-type: none"> <li>• Among the special provisions in the rescheduling agreement was a provision for debt swap – debt for nature or any other debt for swap arrangement.</li> <li>• The Paris Club debt swap provision<sup>3</sup> enables creditors to voluntarily engage in debt swaps.. These swaps usually take one of the following terms: <ul style="list-style-type: none"> <li>○ the <b>debtor country directs the servicing of the debt to a fund that will be used to finance development projects in the country</b> (debt-for-development swaps)</li> <li>○ the <b>sale of the debt by the creditor government to an investor who in turns sells the debt to the debtor government</b> in return for shares in a local company or local currency to be used for projects in the country.</li> </ul> </li> </ul>	

**Note:**

- It is unclear which type of debt swap arrangement has been agreed by the Government of Grenada with the Paris Club.
- **KfW/TNC Supported Debt for Nature Swap:** Grenada with the assistance of the Nature Conservancy and the support of the Government of Germany has arranged a debt for nature swap in respect of part or all of its external commercial debt. It is unclear how much or with which creditors – whether these include the Paris Club. However, representatives of the Government of Germany were observers at the negotiations re Paris Club debt restructuring.
- **KfW/TNC Presentation to CSOs April 2017:** Based on a presentation by the KfW (German Development Bank)/TNC delegation to civil society representatives in April 2017, the debt swap arrangement was already agreed by/with the Prime Minister.
  - **Grenada Sustainable Development Trust Fund (GSDTF):** The Debt for Nature Swap appears to be the one in which an entity (a special purpose vehicle) **will loan money** to an entity called the GSDTF to enable it to purchase the debt (at a discounted rate) from the creditor.
  - **Debt Service Payments to GSDTF:** The External Debt Service payments, formerly directed to external creditor, is intended to be directed to the GSDTF in local currency.
  - **GSDTF to Service External Loan:** The loan liability is now with the GSDTF
  - **Marine Protected Areas:** A condition for this debt-for-nature swap is the establishment of Marine Protected Areas. The declaration of the Grand Anse Marine Protected Area was intended for May 2017..
- **Blue Innovation Institute/Quarantine Station<sup>4</sup>:** The 2017 Budget Statement noted that Grenada was exploring with potential partners the establishment of the Blue Innovation Institute, potential vehicle for debt-for nature swap. The Blue Growth Coastal Master Plan located this institute at Quarantine Point..

<sup>3</sup> <http://www.clubdeparis.org/en/communications/page/debt-swap>

<sup>4</sup> <http://documents.worldbank.org/curated/en/358651480931239134/Grenada-Blue-growth-coastal-master-plan>